Private Equity Accounting,
Investor Reporting,
and Beyond
Private Equity Accounting, Investor Reporting, and Beyond

Table of Contents

Contents
Part I: Private Equity Accounting, Investor Reporting, and Beyond
Chapter 1 Private Equity Structures and Their Impact on Private Equity Accounting and Reporting
Structuring Considerations in Private Equity
Main Building Blocks and Vehicles of a PE Structure
Using a Combination of Vehicles
Alternative Private Equity Structures
Summary
Chapter 2 The Importance of Allocations and Allocation Rules
Introduction: Why Start with Allocations and Allocation Rules?
What Is an Allocation Rule, and Why Is It So Important in Private Equity Accounting?
Why Are Different Allocation Rules Used? Is Excel-Based Accounting Adequate?
How Do Inaccurate Allocations Affect Investors?
How Can You Identify the Allocation Rules in an LPA?
What Do You Do If the Allocation Rules Stipulated in the LPA Are Flawed?
What Is the Best Way of Doing Allocations?
Summary
Chapter 3 Private Equity Accounting Processes: Some
Table of Contents

Neglected Processes That Could Expose GPs
Introduction
Some Neglected Private Equity Accounting Processes
Summary

Chapter 4 Investor Reporting: ILPA versus IPEV IRG
Introduction
Existing Accounting Frameworks and GAAPs Used in Private Equity
What Is Investor Reporting?
Existing Reporting Framework
Comparisons among ILPA, IPEV, and EVCA Reporting Guidelines
Transition from EVCA RG and Other Local Reporting Guidelines to IPEV IRG
ILPA or IPEV IRG Compliant?
Summary
Endnotes

Chapter 5 ESG Reporting and Responsible Investing
Introduction
Why ESG and RI?
Potential Material Impacts of ESG Factors and Value Creation
What Are the Implementation Challenges?
Some ESG Issues
Sample Procedure for RI and ESG Implementation

Chapter 6 Private Equity Valuation: Taking Valuation to a Level Higher
Why Fair Value? A Fair Value History Lesson
Valuation Guidelines
Fair Value Accounting Standards
Basic Private Equity Valuation Concepts
Determining Enterprise Value at a Future Valuation Date
Table of Contents

Public Market Equivalent (PME)
Other Alternative Performance Metrics
Summary

Chapter 8 Carried Interest and Carried Interest Modelling
Why "Carried Interest"?
Clawback: What Is It, and Should We Recognize It in the Financial Statements?
Summary

Chapter 9 Consolidated Financial Statements
Background
Introduction: Basis for Consolidation
Does a Fund Need to Consolidate Portfolio Investments That It Controls?
The Investment Entity Exemption
Do Any of the Changes Impact the Issue of Consolidation of the Fund?
Control
Purpose and Design
Relevant Activities
Power
Protective and Veto Rights
Variable Returns
Principal versus Agent: A Link between Power and Variable Returns
De Facto Agents
Putting the Consolidation Issue All Together
Other Frequently Asked Questions
About the Author

Chapter 10 Technology in Private Equity
Introduction
Technology for General Partners
# Table of Contents

Technology for Limited Partners

Summary

## Part II: Accounting for Different Types of Funds: Beyond Traditional Private Equity Fund Accounting

### Chapter 11 The Limited Partner's and Fund-of-Fund's Perspective on Private Equity Accounting, Reporting, and Performance Measurement

- Difference in the Legal Structure of FoFs Compared to Traditional PE Funds
- Legal Personality: Should an FoF Have One?
- Some Reporting Challenges for More Complex LP/FoF Structures
- Some Accounting-, Reporting- and Performance Measurement-Related Challenges for LPs and FoFs
- Recapitalizations
- Performance Measurement
- Challenges Associated with Secondary Investments

Summary

### Chapter 12 Real Estate Funds

- Introduction
- Key Real Estate Accounting Requirements and Options
- Mind the GAAP
- Other Common Accounting Mistakes

Summary

About the Author

### Chapter 13 Infrastructure Funds

- Introduction
- Structure of Infrastructure Funds
- Market Trends
- Accounting for Infrastructure Funds
# Table of Contents

Investment Valuations
Summary
About the Authors

## Chapter 14 Private Debt Funds

- Debt Funds in General
- How Debt Funds Differ from Private Equity Funds
- Liquidity, Risks, and Rewards Associated with Differing Debt Instruments
- How Are Debt Funds Structured?
- Debt Funds and Financial Reporting
- Using IFRS or U.S. GAAP As a Debt Fund's Financial Reporting Basis
- Measuring Debt Instruments at Fair Value
- Measuring Debt Instruments at Amortized Cost
- Challenges
Summary
About the Authors
Endnotes

## Chapter 15 Mezzanine Debt Private Equity Funds

- Introduction
- What Is Mezzanine Debt?
- European and U.S. Mezzanine Debt: Similarities and Differences
- Rise of Mezzanine Debt within Private Equity
- Accounting for Mezzanine Instruments
- Accounting for Financial Assets
- Challenges to Applying the Business Model Test
- Valuation of Mezzanine Loans for PE Houses
- Unit of Account for Mezzanine Instruments
Summary
About the Authors
Endnotes
Table of Contents

Index